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Report to Rep. David E. Satterfield, III, Chairman, House Committee on Veterans' Affairs: Medical Facilities and Benefits Subcommittee; by Elmer B. Staats, Comptroller General.

Issue Area: Health Programs (1200).

Contact: Human Resources Div.

Budget Function: Veterans benefits and Services: Hospital and Medical Care for Veterans (703).

Organization Concerned: Veterans Administration; National Academy of Sciences.

Congressional Relevance: House Committee on Veterans' Affairs: Medical Facilities and Benefits Subcommittee. Rep. David. E. Satterfield. III.

Authority: P.L. 93-82.

A financial audit of the Veterans Administration (VA) contract with the National Academy of Sciences (NAS) for a study of the VA's health care system showed that costs claimed to have been incurred under the contract and billed to the VA were adequately supported, properly accounted for, and allocable under the terms of the contract and Federal Procurement Regulations. However, certain NAS policies and practices warrant attention. The NAS should: revise its policy of applying a full-fringe benefits rate for hourly employees who are not eligible to participate in NAS' full-fringe benefits program, time the withdrawal of funds against letters of credit to be consistent with actual cash requirements, and adequately document the bases for approving subcontractors' overhead rates. (Author/HTW)

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

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JULY 14, 1978

The Honorable David E. Satterfield, III  
Chairman, Subcommittee on Medical Facilities  
and Benefits  
Committee on Veterans' Affairs  
House of Representatives

Dear Mr. Chairman:

Your November 1, 1977, letter requested that we make a complete audit of the Veterans Administration (VA) contract with the National Academy of Sciences for a study of VA's health care system, as directed by Public Law 93-82. Subsequently it was agreed with your office that our work would be limited to a financial audit of the costs incurred doing the study. We explained that a financial audit would not necessarily show whether the Academy met the terms of its contract but could give assurance that (1) funds spent were properly accounted for by the Academy, according to the terms of its contract with VA and (2) costs incurred were allocable under the provisions of the Federal Procurement Regulations.

Enclosure I describes our results in detail and enclosure II is our list of the cost items that were charged to the contract.

We believe that costs claimed to have been incurred under this contract and billed to VA were adequately supported, properly accounted for, and allocable under the terms of the VA contract and Federal Procurement Regulations.

Although our audit disclosed no improper charges which have an impact on the costs incurred under this contract, we identified certain Academy policies and practices which warrant the Academy's attention. The matters summarized below were discussed with Academy officials when the audit was completed and will be reported by letter to the President of the Academy. We will provide you with a copy of the letter when it is issued. We believe that the Academy should

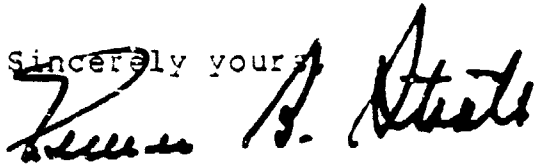
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(40162)

- revise its policy of applying a full-fringe benefits rate for hourly employees who are not eligible to participate in the Academy's full-fringe benefits program,
- time the withdrawal of funds against letters of credit to be consistent with actual cash requirements, and
- adequately document the bases for approving sub-contractors' overhead rates.

Academy officials indicated that corrective actions would be taken on the above matters.

As requested by your office, VA was not given the opportunity to review and comment on the matters discussed in this report. As agreed, however, we are sending copies of this report to the Administrator of Veterans Affairs. Unless you publicly announce the contents of this report earlier, no further distribution will be made until 30 days from the date of the report.

Sincerely yours,



Comptroller General  
of the United States

Enclosures - 2

AUDIT OF COSTS CHARGED BY  
THE NATIONAL ACADEMY OF SCIENCES  
TO VA CONTRACT V101(134)P-203

BACKGROUND

Public Law 93-82, approved August 2, 1973, authorized VA to negotiate an agreement with the Academy under which the Academy would

"\* \* \* conduct an extensive review and appraisal of personnel and other resources requirements in Veterans Administration's hospitals, clinics, and other medical facilities to determine a basis for the optimum numbers and categories of such personnel and other resources needed to insure the provision to eligible veterans of high quality care in all hospital, medical, domiciliary, and nursing home facilities \* \* \*."

On October 31, 1973, VA entered into a letter contract with the Academy totaling \$1,300,000. The Academy was authorized to obligate no more than 50 percent (\$650,000) under the letter contract, with the remaining 50 percent to be obligated only after execution of a definitive contract. The letter contract provided for two studies designated as part I and part II. Part I was to deal with VA medical care, pursuant to Public Law 93-82; part II was to deal with VA research and provided for an assessment of the VA biomedical research effort, including the manner and extent of its contributions to patient care provided by VA. Although both parts were included in the same contract, it was two separate studies and resulted in two separate reports.

A definitive, cost reimbursement contract, was awarded by VA to the Academy on June 19, 1974. At that time, funds to be obligated for the two parts were separately identified--part I was not to exceed \$1,039,200 and part II was not to exceed \$260,000.

After the definitive contract was awarded, the Academy told VA that the original funding for both parts was inadequate to complete the tasks. On June 9, 1975, the contract was

amended to increase the total authorized amount for part I to \$6,000,000. On September 9, 1975, and January 20 and October 22, 1976, the amount authorized for part II was increased to \$410,830.

#### SCOPE OF REVIEW

Because Members of Congress were interested in part I of the Academy's activities, we concentrated our review on that part, although transaction testing included costs from both parts of the contract.

We

- reviewed written Academy policies and procedures and interviewed responsible Academy personnel to determine the adequacy of internal controls for the collection, summarization, and presentation of costs incurred;
- reviewed the Academy's accounting, personnel, and program records to insure that adequate supporting documentation was available;
- tested randomly selected costs for reasonableness, allocability, and allowability as specified in the Federal Procurement Regulations. These costs were also traced from the billing statements prepared by the Academy back to the Academy's supporting documents; and
- interviewed Academy and VA personnel responsible for managing and administering the contract.

We could not physically verify that personnel paid under the VA contract actually worked on the project since this audit was done after the report related to part I was issued. However, we made extensive reviews of the Academy's payroll system and payments to consultants and a randomly selected group of consultants confirmed the total payments they received from the Academy.

#### DEFENSE CONTRACT AUDIT AGENCY'S ROLE IN REVIEWING ACADEMY COSTS

The Defense Contract Audit Agency (DCAA) has an office located at the Academy. DCAA is responsible for reviewing

direct and indirect costs charged to defense and nondefense contracts awarded to the Academy by various governmental agencies. Costs are reviewed on either a selective or random basis for their allowability, reasonableness, and allocability. Any direct costs determined to be unsupported or otherwise unallowable under the terms of the contract or applicable Federal regulations are reported to the contracting officer.

At the request of Federal agencies, DCAA evaluates the Academy's price proposals for contracts with those agencies. It is also responsible for determining final overhead rates for all negotiated contracts and approving the Academy's billing rates for leave and fringe benefit assessments. DCAA is also responsible for audit of costs incurred under cost-type contracts.

VA's Office of Management and Evaluation requested DCAA to review the price proposal increases for part I and part II of the contract. The results were sent to VA.

We reviewed DCAA workpapers pertaining to costs incurred under this contract and relied on DCAA's work when appropriate.

#### CURRENT STATUS OF CONTRACT

The Academy issued the report, "Biomedical Research in the Veterans Administration," on February 3, 1977, to comply with part II of the contract; on June 3, 1977 it issued the report, "Health Care for American Veterans," to comply with part I. As of June 30, 1977, the Academy had submitted vouchers totaling \$5,982,591 for part I of the study and \$405,306 for part II. These amounts were not final costs since the overhead rates used in the billings had not been finalized for fiscal years 1976 and 1977 and the Academy's final payments to two health care subcontractors had not been made, pending financial audits of the subcontractors' records.

The Academy charged an additional \$3,870 from July 1 to December 31, 1977. These costs consisted mainly of Academy staff travel expenses to attend House of Representatives and Senate hearings on the "Health Care for American Veterans" report and other miscellaneous charges. Enclosure II shows all costs incurred under the part I study as of December 31, 1977.

COST CHARGED UNDER  
VA HEALTH CARE STUDY

According to Academy records, total costs incurred as of December 31, 1977, was \$5,986,461 for part I of the study.

Academy personnel costs

Part I of the study cost \$2,271,651 for personnel. These costs consisted of salaries and wages paid to 175 personnel who worked on the study for various intervals and for their associated leave and fringe benefits costs.

These employees held positions including project directors, senior staff officers, staff assistants, research assistants, technical assistants, field supervisors, field representatives, and an array of administrative support positions. Approximately 22 percent of all employees hired worked outside of the metropolitan Washington, D.C. area, the majority of which were to collect data at various VA hospitals.

Because the Academy generally hires program personnel for the period of the contract or for some identified program segment, relatively few Academy employees who were paid salaries and wages under the VA contract were still employed at the Academy as of December 31, 1977. However, in those cases where the individuals were still employed at the Academy, we contacted them for payroll record verification.

Payroll payments to employees were randomly selected and traced through payroll to insure adequate controls. Employees' payroll records were reviewed to ensure that charges to the contract were for employees working on the study. We also obtained DCAA-approved rates for leave and fringe benefit assessments and compared them with Academy charges to ensure that the billing rates for these categories agreed with DCAA recommendations.

Consultant costs

The Academy employed 190 consultants under the contract from May 1974 to December 31, 1976, and paid them a total of \$388,366 in fees. Most consultants were used to review VA and non-VA hospital activities; others participated in study groups and related seminars. A few of the consultants

performed full-time staff related functions for major report areas. Payments ranged from \$75 to \$150 per day with only those individuals having considerable responsibility in the medical area receiving \$150 per day.

In our review of consultants' costs, we (1) randomly selected and confirmed approximately 29 percent of all consultants' costs; (2) made transaction tests and reviewed costs on a random basis; (3) reviewed selected records to be sure they agreed with Academy policy; and (4) compared total actual costs with budgeted costs.

#### Travel costs

The Academy's staff personnel, committee members, and consultants incurred travel expenses of \$362,221 from November 1973 to December 1977.

The majority of the travel costs were incurred by the Academy in sending general- and special-purpose site teams to review activities at selected VA hospitals. Travel costs were also incurred to attend followup meetings, make site visits, and to attend seminars and workshops.

Our audit of travel costs consisted of reviewing Academy travel policy and guidelines to ensure consistency with Federal travel regulations; obtaining program data on Academy meetings about the part I study; obtaining confirmation from consultants regarding hospitals visited; and reviewing selected travel transactions to be sure travel was appropriate and supported by required evidence of costs incurred.

#### Subcontract costs

The Academy's total subcontracting costs for part I of the study as of December 31, 1977, were \$1,136,315. This amount represented payments to seven subcontractors with cost reimbursable subcontracts with the Academy, and a fixed-price agreement with a former staff member to prepare two reports. Five of the seven subcontractors were selected noncompetitively. Academy officials told us that the limited time frame and the uniqueness of the data collected were prime reasons for the lack of competition in selecting subcontractors.

Our review of subcontractors' costs included transaction testing of records located at the Academy. We did not examine subcontractor financial records.



Material services and equipment rental costs

Total costs for material, services, and equipment rentals were \$324,891. Data processing and related services made by the Academy and obtained from outside sources accounted for over 60 percent of the costs in this category. We were told that the Academy's Data Processing Center in the earlier stages of the contract performed most of the necessary data processing services. However, increasing demands for computer time and related services made it necessary to obtain services from outside vendors. Rental equipment expenditures were mainly for the rental of a Lexitron report processor used exclusively for the part I study report.

We reviewed the Academy's procurement policies and procedures for compliance with Federal regulations and verified support for selected transactions.

Printing and communication costs

Total charges for printing and communications were \$116,811. These costs included publications services performed by the Academy's printshop for forms, questionnaires, and reports for the part I study. Other costs included in this category are reproduction costs, telephone charges, and shipping costs.

Overhead costs

Overhead rates are applied to all direct costs charged to the contract and are determined by the Academy with DCAA's review of indirect costs. Annual rates charged at the time of the VA contract ranged from 34 to 41 percent for all direct costs except for subcontracts. A 5-percent annual overhead rate was applied to subcontracts. When the VA contract was in effect, the Academy properly applied the agreed-upon rates to direct costs.

Miscellaneous costs

Miscellaneous charges included borrowed personnel, lunches, dinners, books, periodicals, moving expenses, and advertising costs.

CONCLUSION

Based on our review, we believe that all costs claimed to have been incurred under the contract are adequately supported, properly accounted for, and allocable under the terms of the VA contract and the Federal Procurement Regulations.

NATIONAL ACADEMY OF SCIENCES' COSTS  
INCURRED IN PERFORMANCE OF THE VETERANS  
HEALTH CARE STUDY (PART I)  
NOVEMBER 2, 1973, TO DECEMBER 31, 1977

<u>Cost items</u>	<u>Total identified costs</u>
Academy personnel:	
Direct labor	\$1,927,025
Leave and fringe benefits	<u>344,626</u>
Total	\$2,271,651
Consultants	388,366
Travel:	
Consultants	143,918
Staff	<u>218,303</u>
Total	362,221
Subcontracts (note a)	1,136,315
Material, service, and equipment rental	324,891
Printing and communication	116,811
Overhead:	
Applied on direct cost (note b)	1,292,270
Applied on subcontracts	<u>56,816</u>
Total	1,349,086
Miscellaneous	<u>37,120</u>
	<u>\$5,986,461</u>

a/Amount does not include pending final payments of \$6,993 to two subcontractors. Final payments will be made after DCAA reviews subcontractors' final records and determines the allowability of direct and indirect costs reported by the subcontractors.

b/Amount reflects provisional rates applied to all direct costs excluding subcontractors. As of December 31, 1977, the Academy's overhead rates for fiscal years 1976 and 1977 had not been finalized.